4Q 2020 COMMENTARY

A BULL(ISH) YEAR

Dear Investors,

Summary

- In 2020, the Fund appreciated by +7.6% versus MSCI SE Asia -9.3%.
- Markets in the region performed as follows:

  Malaysia +1.1%, Indonesia -3.7%, Philippines -8.6%, Singapore -11.7%, Thailand -7.4%, Vietnam +13.9%.
- In November 2020, ASEAN signed the Regional Comprehensive Economic Partnership - the world's largest Free Trade Agreement.

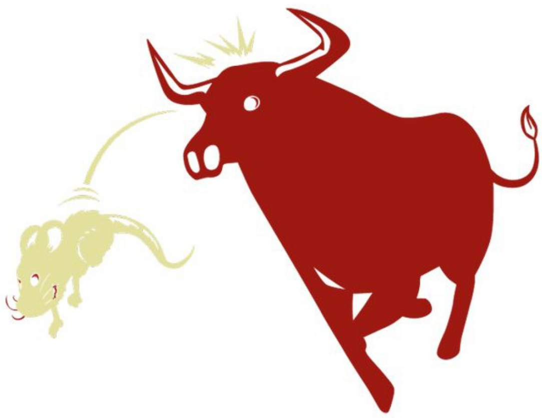
Commentary

The vaccine rollout is going to be messy because of policy errors, confusion, and under the existing leadership of most countries in ASEAN, a muddling through process at best. And it is a result of this that opportunities continue to exist in the markets in the region.

In the previous letter, we commented that *Policy Errors* would open opportunities for companies and industries that benefit from the supply-chain disruption and to consolidate and expand their market share within their respective industries.

We have positioned the holdings into these themes:

- Supply Chain Disruption 14%
- Market Share Consolidation 15%
- Business & Travel Recovery 39%
- Vietnam Ascent 10%
- Bad Debt/Non-bank financing 17%



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Country Developments

Pre-Covid19 both Indonesia and the Philippines approved reductions in corporate income tax.

- Indonesia will reduce corporate income tax rates from 25% to 20%, set to be implemented in stages from 2021 onwards.
- The Philippines will reduce corporate income tax rates from 30% to 25%, also set to be implemented in stages from 2021 onwards.

A look at the effect of tax cuts on Thai equities and US equities indicates market out performance:

- Thai companies reported ~ 10% EPS growth in 2012, leading to a ~ 37% surge in the SET Index.
- More recently, listed US companies saw ~ 13% EPS growth in 2017, leading to a ~ 21% rise in the S&P Index after tax cuts following Trump's election.

Portfolio Strategy Tuning

It became apparent to us in 2H19 that focusing purely on small mid-caps were not generating the necessary returns. This is evidenced by one core holding Southern Concrete Piling which increased their book equity value by +50% over the holding period of 4 years, showed revenue and earnings growth of +10% p.a., a debt-free balance sheet, and yet pre-covid was valued by the market at 3x earnings with a 7% dividend yield. However, its share price had declined by -30% over 4 years.

As capital flows generally to mid to large caps we adjusted our strategy slightly to include large caps alongside the smaller cap names where we hold the viewpoint that the industry potential is attractive. Naturally, weightings were adjusted accordingly. A recent example of this is during the 3Q20 where we viewed the value in the hospitality sector of listed names in Thailand were particularly attractive and instead of allocating capital 3-5% to attractive smaller names with the cheapest valuation we allocated capital to 4 key players. This has increased the number of positions that we hold as well, from a historical minimum of 20 to now 40 positions.

We do maintain that small and mid-caps should continue to outperform over the longer term, as evidenced by a holding such as Singer Thailand which increased by +200% over 13 months even though its equity value increased by only ~+5% in 2020 and is now at 30x earnings but realise we must adjust accordingly to the opportunities presented in the markets.

Positive Regional Developments

In November 2020, ASEAN as a regional bloc has signed the Regional Comprehensive Economic Partnership (RCEP) which involves 10 ASEAN nations, China, Japan, South Korea, Australia and New Zealand. Together the RCEP's 15 participants account for 30% of Global GDP, 30% of the World's population and 25% of global trade in goods and services making it the world's largest FTA measured in GDP. This is also the first multilateral agreement to include China and the first FTA that links China and Japan, and Japan and Korea. Further to this four ASEAN countries, Brunei, Singapore, Malaysia and Vietnam, together with Japan, Australia and New Zealand are also part of the 11-member Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). This was effective since December 2018, includes four other Pacific Rim nations - Canada, Peru, Chile and Mexico.

The ADB cited a study by the Peterson Institute for International Economics, which estimated economic gains for the global economy from the combination of the CPTPP and the RCEP, using a computable general equilibrium model. In a business-as-usual scenario that assumed a return to a pre-trade warpath, they added the CPTPP and RCEP agreements in sequence, estimating their respective incremental effects.

According to economists Peter Petri and Michael Plummer, the authors of the study, the CPTPP is projected to increase real income worldwide by $147 billion by 2030 and the RCEP could add $186 billion to this gain.